LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
http://www.in.gov/legislative

FISCAL IMPACT STATEMENT

LS 7711
BILL NUMBER: HB 1001

NOTE PREPARED: Feb 19, 2007
BILL AMENDED: Feb 19, 2007

SUBJECT: State Budget.

FIRST AUTHOR: Rep. Crawford
FIRST SPONSOR:

BILL STATUS: CR Adopted - 1st House

FUNDS AFFECTED: X **GENERAL**
X **DEDICATED**
X **FEDERAL**

IMPACT: State & Local

Summary of Legislation: *Biennial Budget:* This bill establishes the biennial budget for the state of Indiana and appropriates money for state agencies and provides for other distributions. It also authorizes construction and bonding for certain projects.

Child Services Levy: The bill requires the state to pay from state funds the increase in the cost of child services and reimburses counties for certain child service expenditures in 2006 and 2007.

Higher Education Provisions: The bill establishes the Indiana University School of Public Health. The bill also caps tuition increases for state educational institutions and provides bonding authority and appropriations for university construction.

K-12 Education: The bill specifies the school tuition support formula to be used to distribute state tuition support to schools. The bill also places limits on the instruction a charter school may provide through virtual distance learning, online technologies, or computer-based instruction. The bill also provides that the Department of Education shall make grants to a school business officials academy. The bill also provides that if a school corporation enters into a lease with the Indiana Bond Bank for school buses that results in a reduction in the School Bus Replacement Levy, the school would be able to retain the amount of the reduction and keep it in the School Bus Replacement Fund or transfer the amount to the school CPF or Transportation Fund.

Annual Tax Review and Economic Analysis of Indiana's Tax System: The bill requires an analysis of Indiana's tax system.

Establishment of the General Accountability Office and Comptroller General: The bill establishes the General Accountability Office and Comptroller General.

Construction and Financing of Water Projects: The Indiana Finance Authority (IFA) must construct or reconstruct a water project that will employ at least 2,000 people, and lease the water project to the Department of Natural Resources (DNR). The bill also provides that the purposes of the Major Moves Construction Fund are expanded to include water projects.

Hoosier Lottery: The bill indicates that the lottery may not be operated under a management contract.

Disallowance of the Initiation of Feasibility Studies by Executive Branch or Quasi-Entities: The bill also prohibits certain feasibility studies without prior legislative authority.

Expiration of Automatic Property Tax Adjustment: The bill provides that investment deductions for real and personal property can only be applied to property taxes payable in 2007 and 2008.

Spinal Cord and Brain Injury Trust Fund: The bill establishes the Spinal Cord and Brain Injury Trust Fund.

Modernization of Department of Workforce Development: The bill extends the time the Department of Workforce Development can use funds made available under Section 903 of the Social Security Act for modernization of the unemployment insurance system.

Judicial Technology Automation Committee (JTAC): The bill maintains the Automated Record Keeping Fee at its current level.

County Reimbursement for Remanded Criminal Cases: It provides for state reimbursement of certain retrial costs.

Commission on Disproportionality in Youth Services: The bill establishes the Commission on Disproportionality to develop and provide a plan to evaluate and address disproportionate representation of youth of color in the use of youth services. The bill also makes an appropriation to the Commission.

Additional Appropriations: The bill makes additional appropriations for the dramatic production of Young Abe Lincoln, Lincoln State Park, the Indiana Abraham Lincoln Bicentennial Commission, the Department of Agriculture, and the Indiana Arts Commission.

Elimination of Funds Transfer into the Rainy Day Fund: The bill eliminates the authority of the State Budget Agency to transfer $100 M from the state General Fund into the Counter-Cyclical Revenue and Economic Stabilization Fund during FY 2007.

Sales Tax Provisions: The bill eliminates the business assessment deduction. It eliminates Sales Tax on college textbooks. It also changes the formula for Sales Tax refunds related to a bad debt and changes the Sales Tax distribution.

Update of References to the Internal Revenue Code: The bill updates references to the Internal Revenue Code.

Orange County Provisions: The bill makes changes concerning the use of tax revenues from the riverboat in Orange County. The bill replaces the Historic Hotel Preservation Commission in Orange County with the Orange County Development Commission.

Bonding for Certain Pension Obligations: The bill permits counties and municipalities to issue debt to provide funds to pay pension benefits under the 1925 Police Pension Fund, the 1937 Firefighters' Pension Fund, and the 1953 Police Pension Fund.

The bill also makes other changes.

Effective Date: January 1, 2007 (retroactive); Upon passage; July 1, 2007; January 1, 2008.

Explanation of State Expenditures: *Biennial Budget Appropriations:* This bill establishes the state budget appropriations for FY 2008 and FY 2009. Total General Fund and Property Tax Replacement Fund appropriations are $12,605 M for FY 2008 (a 4.7% increase over FY 2007) and $12,960 M for FY 2009 (a 2.8% increase over FY 2008).

Of this amount, total operating appropriations are $12,376 M for FY 2008 (a 4.7% increase over FY 2007) and $12,731 M for FY 2009 (a 2.9% increase over FY 2008). Appropriations for capital projects represent $457.3 M for the biennium.

Appropriations from the General Fund and the Property Tax Replacement Fund are provided by functional category in the following table.

General Fund and Property Tax Replacement Fund: FY 2008-FY 2009.				
Functional Category *	**FY 2008**	**% Change**	**FY 2009**	**% Change**
General Government	433,134,175	13.4%	438,697,248	1.3%
Corrections	623,820,843	0.0%	624,102,731	0.0%
Other Public Safety	107,445,958	14.7%	107,347,958	-0.1%
Conservation and Environment	88,326,135	3.5%	88,308,259	0.0%
Economic Development	50,370,759	23.0%	50,570,759	0.4%
Transportation **	0	0.0%	0	0.0%
Mental Health	250,484,132	0.0%	250,551,566	0.0%
Public Health	87,043,205	16.6%	95,324,602	9.5%
Medicaid	1,525,157,653	0.0%	1,525,157,653	0.0%
Family and Children	186,838,699	0.4%	186,944,895	0.1%
Social Services and Veterans	387,169,376	10.9%	411,133,836	6.2%
Higher Education	1,703,520,903	7.3%	1,753,417,517	2.9%
Education Administration	51,442,277	-2.0%	52,741,359	2.5%
Tuition Support - General Fund	2,165,440,147	3.1%	2,223,685,270	2.7%
Tuition Support - PTR Funds	1,717,564,666	4.0%	1,775,809,790	3.4%
Social Security - Teachers	2,403,792	0.0%	2,403,792	0.0%
Teachers Retirement	621,156,909	6.0%	658,426,324	6.0%
Other Local Schools	279,113,059	49.8%	328,972,762	17.9%
Other Education	13,485,462	13.7%	13,987,795	3.7%
PTR and Homestead Credits	2,082,509,197	2.7%	2,143,509,197	2.9%
Other HB 1001 Appropriations ***	2,137,500		2,137,500	
Subtotal - Operating	12,378,564,847	4.7%	12,733,230,813	2.9%
Higher Education Construction	38,535,050		38,535,050	0.0%
Other Construction	199,015,871		199,015,871	0.0%
Subtotal - Capital Projects	237,550,921	1.5%	237,550,921	0.0%
Grand Total	12,616,115,768	4.7%	12,970,781,734	2.8%

Appropriations "for the biennium" are apportioned 50% for each fiscal year.
The appropriations in this table represent only those appropriations provided in HB 1001-2007.
* Functional categories are coded to be consistent with functional categories in HEA 1001-2005.
** All appropriations for this functional category are from dedicated funds.
*** "Other HB 1001 Appropriations" includes appropriations made in SECTIONS 37 or later.

Appropriations from dedicated and federal funds for the biennium are presented in the following table.

Dedicated and Federal Appropriations: FY 2008 -FY 2009.				
Functional Category	**FY 2008**	**% Change**	**FY 2009**	**% Change**
BIF & Lottery /Gaming Surplus	4,750,001	0.0%	4,750,001	0.0%
Other Dedicated - Operating	1,287,796,954	10.5%	1,285,355,402	(0.2)%
Other Dedicated - Construction	28,956,733	18.3%	28,956,732	0.0%
Tobacco Settlement	142,587,986	-27.1%	136,288,281	(4.4)%
Federal Funds	860,822,452	34.6%	897,922,452	4.3%
Total Dedicated	2,324,914,126	13.4%	2,353,272,868	1.2%

The bill also includes $56.1 M in retroactive appropriations for FY 2007 for tuition support.

Tobacco Master Settlement Agreement Fund Appropriations are presented in the following table.

Tobacco Master Settlement Agreement Fund Appropriations	FY 2008	FY 2009
Attorney General	389,344	389,344
Rural Economic Development Fund	3,603,480	3,603,480
Commission on Hispanic/Latino Affairs	115,599	115,599
Indiana Prescription Drug Program	7,900,000	7,900,000
Children's Health Insurance Program (CHIP)	31,363,603	33,863,603
Community Mental Health Centers	2,000,000	2,000,000
Division of Disability, Aging & Rehabilitation Administration	3,012,462	3,012,462
Residential Services Case Management	2,050,626	2,050,626
Residential Services for Developmentally Disabled Individuals	22,300,000	22,300,000
State Department of Health	8,800,000	0
Cancer Registry	648,739	648,739
Minority Health Initiative	3,000,000	3,000,000
Aid to County Tuberculosis Hospitals	449,879	449,879
AIDS Education	699,804	700,099
HIV/AIDS Services	2,162,254	2,162,254
Test for Drug Afflicted Babies	62,496	62,496
State Chronic Diseases	730,300	730,300
Women, Infants, & Children Supplement	176,700	176,700
Maternal & Child Health Supplement	176,700	176,700
Cancer Education & Dx - Breast Cancer	93,000	93,000
Cancer Education & Dx - Prostate Cancer	93,000	93,000

Tobacco Master Settlement Agreement Fund Appropriations	FY 2008	FY 2009
Minority Epidemiology	750,000	750,000
Community Health Centers	30,000,000	30,000,000
Prenatal Substance Use & Prevention	150,000	150,000
Local Health Maintenance Fund	3,860,000	3,860,000
Local Health Department Account	3,000,000	3,000,000
Tobacco Use Prevention & Cessation Program	15,000,000	15,000,000
Total Tobacco Settlement Funds Appropriated	**142,587,986**	**136,288,281**

Property Tax Replacement Credits (PTRC)/Homestead Credit (HSC) Provisions-

PTRC/Homestead Credit Minimum and Maximum [SECTION 10]: Currently, the state pays PTRC in the amount of 60% of school general fund levies attributable to all property and 20% of the portion of all operating levies (including the remaining 40% of the school GF levy) that are attributable to real property and non-business personal property. Homestead credits are paid by the state in the amount of 20% of the net property tax due for qualifying funds on owner-occupied residences.

Current law also contains a *minimum* calendar year distribution equal to (1) the amount spent in CY 2002 for PTRC and homestead credits ($1,121.7 M), plus (2) the amount of revenue expected to be raised by 1% of the current 6% sales tax rate. The *minimum* distribution is estimated at $2,084 M in CY 2008 and $2,126 M in CY 2009.

The overall distribution would be limited to the fiscal year appropriation in the bill for FY 2008 and FY 2009. If the PTRC and homestead credit rates generate a liability in a year that is greater than the appropriation, then the PTRF Board would proportionately reduce the 60% school general fund, 20% regular PTRC, and 20% homestead credit percentages.

Under current law, and considering the levy reductions in this bill, the total "*full cost*" of the PTRC plus homestead credit expenditure is estimated at $2,300 M in CY 2008 and $2,417 M in CY 2009, or $2,243 M in FY 2008 and $2,346 M in FY 2009.

The total *appropriation* for the Property Tax Replacement Fund in the bill is set at $2,082.5 M in FY 2008 and $2,143.5 M in FY 2009. After the state's share of the costs of child services are paid from this appropriation, there would be approximately $2,024 M in FY 2008 and $2,016 M in FY 2009 available for PTRC and homestead credits.

The fiscal year appropriations for PTRC and homestead credits in this bill are lower than the estimated full cost of the credits by about $220 M in FY 2008 and $330 M in FY 2009.

Child Services Levy [SECTION 10]: The net total additional state expenditure for child services is estimated at $231 M in FY 2008, $128 M in FY 2009, and $149 M in FY 2010.

Under this provision, beginning in CY 2008, the county family and children's fund levy would be frozen at the lesser of the 2005 or 2007 amount of child services costs incurred in the year that were paid from property tax, cash balances derived from property tax, or from loans payable from property tax. The state would be responsible for any child services costs in a county that exceed the money available in the county's family and children's fund.

The total statewide family and children's fund levy freeze is estimated at $286 M. Under current law, family and children's fund levies are estimated at $404 M in CY 2008, $424 M in CY 2009, and $445 M in CY 2010. The gross levy, therefore, would be reduced by an estimated $118 M in CY 2008, $138 M in CY 2009, and $159 M in CY 2010. With the appropriation for PTRC and HSC at less than full funding, the reduction in the family and children's levies would not result in a PTRC/HSC savings. On a fiscal year basis, the state's additional expenditures to pay for costs above the levy freeze are estimated at $59 M in FY 2008, $128 M in FY 2009, and $149 M in FY 2010.

[SECTION 163] In addition to the levy freeze, the state would make a one-time distribution from the state General Fund to counties. The distribution must first be used by a county to pay for outstanding child welfare obligations. If the county's obligations are more than the distribution amount, then the remainder would be paid from the county's debt service fund. Any remaining money from the distribution would be used to further reduce 2008 county levies.

The amount distributed to each county would equal (1) the difference between the county's 2006 child welfare cost from property tax (as calculated above) and the 2005 cost; PLUS (2) the difference between the 2007 cost and the 2005 cost.

The statewide total one-time distribution amount is estimated at $172 M. This distribution must be made by March 1, 2008, so the entire $172 M would be paid in FY 2008. The bill appropriates the amount necessary to make the distribution from the General Fund.

<u>*Higher Education*</u> - The bill has the following provisions regarding higher education.

Tuition Increases [SECTIONS 127-128]: The bill limits the increase in tuition that state educational institutions can charge after June 30, 2007, for any two-year period to the tuition in the preceding two years times the compound annual growth rate of Indiana median family incomes for the immediately preceding five years. Based on the most recent census information, the maximum allowable increase is about 4.1%. The provision may affect state educational institutions' revenue.

Use of Non-Reverting Funds [SECTIONS 65-69, 72-75]: The bill provides that money in the College Work-Study Fund, Student Loan Program Fund, Nursing Scholarship Fund, Part-Time Student Grant Fund, Indiana Excellence in Teaching Endowment, Twenty-First Century Scholars Fund, Twenty-First Century Scholars Support Fund, and Career College Student Assurance Fund that does not revert at the end of a fiscal year has to be used for student grants, scholarships, or loans as specified by the respective funds. Money in the Secondary Market Sale Fund that does not revert at the end of a fiscal year is available for school assessment and remediation. The provision should not have any state fiscal impact, but the bill does specify how the funds can be used.

School of Public Health [SECTION 70]: The bill allows Indiana University to establish the Indiana University School of Public Health. The university currently has a department of public health in the School of Medicine.

University Construction [SECTIONS 156-158, 160-162]: The bill provides bonding authority and two appropriations for new university construction projects. The following table lists the new university construction.

University Construction	Bonding	Appropriations
Vincennes University		
Advanced Manufacturing & Applied Technology Center, Jasper Campus	$8.00 M	
Center for Advanced Manufacturing, Gibson County		$5.00 M
Multicultural Center	* $5.00 M	
Electrical Infrastructure Substation II	$2.00 M	
Indiana University		
Cancer Research Institute, School of Medicine South Bend		$10.00 M
Arts Building, South Bend	$19.00 M	
Cyber Infrastructure Building, Bloomington	$18.30 M	
Athletics Facilities	* $45.00 M	
Education Center A&E, Southeast Medical	$1.00 M	
Indiana University, Purdue University at Indianapolis		
Neurosciences Research Building	$20.00 M	
Ivy Tech-Indiana Community College		
Technology Center and Demolition Costs, Fort Wayne	$26.70 M	
Fall Creek Expansion Project, Indianapolis	$69.37 M	
Lampkin Center for Instructional Development and Leadership	$1.00 M	
Logansport	$10.50 M	
Sellersburg	$20.00 M	
Purdue University		
Gyt Building A&E, Calumet	$2.40 M	
Student Services & Recreation Center A&E, North Central	$1.00 M	
Mechanical Engineering Addition, West Lafayette	* $33.00 M	
Boiler No. 6, West Lafayette	$53.00 M	
University of Southern Indiana		
College of Business, General Classroom Building	$29.00 M	
Totals	**$364.27 M**	**$15.00 M**
* Not Eligible for Fee Replacement		

The bonding authority eligible for fee replacement (state debt service payments) is $281.27 M. The annual fee replacement payments over 20 years at 6% interest would be about $24.5 M each year.

K-12 Education - The bill has the following provisions regarding K-12 education.

Deficiency Appropriation: The bill appropriates $56.1 M for FY 2007 to fund the increase in the CY 2007 tuition support cap.

Budget Line-Item Increases: The bill increases the appropriations for remediation, limited English proficiency, textbook reimbursement, and full-day kindergarten. These appropriations are included in the appropriations summary table above.

	FY 2007 Approp.	FY 2008 Approp.	FY 2009 Approp.
Remediation	$9 M	$29.9 M	$29.9 M
Textbook Reimbursement	$19.7M	$37.0 M	$40.8 M
Limited English Proficient	$0.7M	$6.9 M	$7.0 M
Full-Day Kindergarten	$8.5 M	$57.5 M	$103.5 M

Charter Schools [SECTIONS 133-134]: The bill would not allow a charter school to provide more than 50% of the instruction to students through virtual distance learning, online technologies, or computer-based instruction. Ball State University has currently approved two virtual charter schools, Indiana Connections Academy and Indiana Virtual Charter School. The schools were projected to enroll about 2,255 students for the 2008 school year. Depending on the school formula and the appropriation for tuition support, the change could reduce the state expenditures or redirect state expenditures to other schools.

School Business Officials Academy [SECTION 78]: The bill provides that the Department of Education shall make grants to a school business officials academy. The academy is to strengthen the leadership and management skills of practicing school business officials. The grants are paid from funds appropriated to the office of the state superintendent for personnel services.

School Formula: The bill specifies the school formula for CY 2008 and CY 2009. The bill makes the following modifications from the 2007 school formula for 2008 and 2009:

1. The bill increases the foundation grant from $4,563 in CY 2007 to $4,750 in CY2008 and $4,765 in CY 2009. A school with a complexity index of greater than 1.25 and an ADM less than 1,700 has a $5,000 foundation grant for CY 2008 and CY 2009.
2. The bill decreases the foundation tax rate from $0.7272 in CY 2007 to $0.661 in CY 2008 and $0.649 in CY 2009.
3. The bill increases the guarantee amount that a 1 cent tax rate per student generates in the school formula from $36.30 in CY 2007 to $46 in CY 2008 and CY 2009.
4. The bill changes the adjusted ADM calculation for growing schools so 100% of growth is included instead of 75% of the growth.
5. A school with an ADM growth of more than 5% is to fund from property taxes the additional revenue generated from the ADM growth above 5% from property taxes.
6. The bill changes the complexity index calculation from a 5-factor calculation to a calculation that

uses the percentage of students eligible for free or reduced lunch in the 2007 school year. The factor is increased from $1,260 to $2,800 for CY 2008 and $2,850 for CY 2009. The adjustment for a complex school (a school with a complexity index greater then 1.25) is such that a school gets the difference between the index and 1.25 instead of ½ of the difference.

7. If the school corporation growth in ADM is less than 5%, then growth in regular program revenue is limited to 6%.
8. If a school corporation's ADM is less than 2,000 and their regular program revenue is less than it was the previous year, the school receives an additional $200 per ADM.
9. If the school corporation's regular program revenue increase is between 0% and 1%, the school corporation receives an additional $100 per ADM.
10. If a school corporation has an ADM of less than 100, then regular program revenue equals their transition-to-foundation grant times their ADM.
11. Charter schools receive their CY 2007 regular program revenue for CY 2008 and 2009.
12. The bill increases the grants for special education. The severe grant increases from $8,246 to $8,400 for CY 2008 and $8,500 for CY 2009. The moderate grant increases from $2,238 to $2,270 for CY 2008 and $2,320 for CY 2009. The communications handicapped and homebound grants increase from $531 to $533 for CY 2008 and $540 for CY 2009.
13. The bill increases the primetime classroom funding guarantee from $69,811 to $73,900 for CY 2008 and $77,000 for CY 2009.

The following shows the CY 2007-2009 school formula estimates.

School Formula					
	CY 2007	**CY 2008**	**% Inc.**	**CY 2009**	**% Inc.**
State Regular	$3,147,269,579	$3,270,945,809	3.9	$3,401,564,268	4.0
Gross Max Levy	$2,046,342,812	$2,126,342,612	3.9	$2,210,046,561	3.9
Additional Levy for Schools with over 5% ADM Growth		$4,371,352		$8,120,176	
Prior Year Auto & FIT	$197,220,330	$191,580,680	(2.9)	$185,861,723	(3.0)
Total Regular	$5,390,832,721	$5,593,240,454	3.8	$5,805,592,729	3.8
Special Education	$444,959,580	$462,326,835	3.9	$480,339,940	3.9
Vocational Education	$81,814,250	$85,482,345	4.5	$89,303,563	4.5
Prime Time	$117,178,670	$122,965,078	4.9	$128,316,181	4.4
Honors	$15,924,600	$16,555,950	4.0	$17,210,700	4.0
Total	$6,050,709,821	$6,280,570,661	3.8	$6,520,763,113	3.8

The maximum distribution of state funds for tuition support is $3,807.2 M for CY 2007, $3,958.3 M for CY 2008, and $4,116.8 M for CY 2009. The amount necessary to the fund the calendar year maximums is $3,883.2 M for FY 2008 and $4,038 M for FY 2009. The line item appropriation for tuition support is $3,883,004,813 for FY 2008 and $3,999,495,060 for FY 2009.

Annual Tax Review by LSA [SECTION 37]: The bill requires the Legislative Services Agency (LSA) to annually do the following:

(1) Review changes to tax laws of Indiana and other states enacted during the preceding year.
(2) Analyze and evaluate Indiana's tax laws compared with the tax laws of states in the Midwest and other states.
(3) Present a comprehensive report of the results of the review and comparison to the Governor and the Legislative Council.

The bill requires LSA to present the initial comprehensive report to the Governor and the Legislative Council by June 1, 2009, with subsequent annual reports presented by June 1st each year thereafter. The bill permits LSA to solicit information from private individuals and entities, tax policy experts, and other appropriate sources. The bill authorizes LSA to pay any travel expenses, per diem, and expert witness fees for such individuals or entities. It also authorizes LSA to contract with individuals or entities to carry out the review and analysis.

LSA would incur additional administrative cost to implement this new annual research requirement, with the funds and resources required to conduct the annual review contingent on appropriations and Legislative Council funding decisions.

Establishment of the General Accountability Office and Comptroller General [SECTION 38]: The bill establishes the General Accountability Office (GAO) and the Comptroller General to perform audits, program evaluations, and reviews as directed by the General Assembly or one of its members. Ultimately, the cost of a GAO and a Comptroller General will be based on the actions of the General Assembly in funding the GAO and the requests made by the General Assembly and its members.

Agencies of the General Assembly are funded with state General Fund dollars. The bill does not indicate if the Comptroller General may hire staff or how many audits, reviews, or evaluations are to be completed each year. The number of evaluations, audits, and reviews that can be completed in a year depend on the number of staff available and the scope of each program. The bill does not make a specific appropriation for the Office.

Most state evaluation programs indicate that one to four team members are needed for evaluations and audits, depending on the scope. The chief officers of legislative evaluation units receive compensation greater than $75,000 based on a 2005 survey by the National Legislative Program Evaluation Society.

Construction and Financing of Water Projects [SECTION 42]: The Indiana Finance Authority (IFA) must construct or reconstruct a water project that will employ at least 2,000 people, and lease the water project to the Department of Natural Resources (DNR). The IFA may issue bonds not to exceed $30 M to finance the project. Bonds issued by the IFA are payable solely from the lease rentals from the lease of the water project for which the bonds were issued, insurance proceeds, and any other funds of the IFA pledged or available; and any revenues from the water project.

A lease entered into by the IFA and the DNR concerning a water project must include a provision stating that the lease does not constitute an indebtedness of the state and that lease rentals are payable by the DNR solely from biennial appropriations for the use of a water project provided by the IFA.

The lease must include provisions requiring the DNR to make lease rental payments at times and in amounts sufficient to pay the debt in full. The lease must include provisions requiring the DNR to operate and maintain the water project during the term of the lease. The DNR may purchase the water project during the term of the lease for a price equal to the amount required to pay all indebtedness incurred on account of the water project.

The lease must include provisions requiring that the plans and specifications of the water project be submitted to and approved by all agencies of state government designated by law to review plans and specifications concerning the components of the water project.

The DNR may sell, transfer, convey, or lease by any means any property to the IFA.

The above provisions will increase administrative expenditures for the agencies involved. The specific impact is indeterminable.

Construction and Financing of Water Projects [SECTION 58]. The bill provides that the purposes of the Major Moves Construction Fund includes water projects.

Background on the Major Moves Construction Fund: The Major Moves Construction Fund was established to fund toll road or tollway projects; other projects in the Department of Tranportation's (INDOT) transportation plan; and certain distributions to state and local entities under statute. The fund is a trust administered by INDOT. Money in the Fund must be appropriated by the General Assembly for expenditure and may not be transferred, assigned, or otherwise removed from the Fund by the State Board of Finance, the Budget Agency, or any other state agency. Money in the Fund does not revert to the state General Fund.

As of February 15, 2007, the balance in the Fund was $3.16 B with recorded interest income of $42.9 M. The money in the fund came from the proceeds of the lease of the Indiana Toll Road in July 2006.

Hoosier Lottery [SECTIONS 43-44]: Current statute authorizes the Hoosier Lottery to enter into contracts for the purchase, lease, or lease-purchase of goods or services necessary to carry out this article. In particular, it authorizes the Hoosier Lottery to contract and make purchases that integrate functions such as lottery game design, supply of goods and services, and advertisement. However, current statute prohibits the Hoosier Lottery from contracting with any person or entity for the total operation and administration of the Lottery.

The bill extends the prohibition on contracting for total operation of the Hoosier Lottery to a management agreement or franchise agreement the total operation of the Lottery or substantially all operation and administration of the Lottery. The bill also prohibits the Hoosier Lottery from sharing or otherwise paying any part of the Lottery's annual surplus Lottery revenue to any person or entity that provides any operation or administration functions for the Hoosier Lottery other than the state. The bill also changes the current law authorization to a requirement that the Hoosier Lottery contract and make purchases that integrate functions such as lottery game design, supply of goods and services, and advertisement

Disallowance of the Initiation of Feasibility Studies by Executive Branch or Quasi-Entities [SECTION 50]: The bill could minimally increase costs for the Attorney General and Inspector General to enforce a prohibition against a government entity contracting, soliciting the services of, or accepting the services of a person to perform a feasibility study for a project or public-private agreement with prior approval of the General Assembly enacted in a bill.

Expiration of Automatic Property Tax Adjustment [SECTION 51, 52]: Currently, investment deductions for real and personal property can be applied to property taxes payable from 2007 through 2010. Under this bill the deduction would only be available for taxes payable in 2007 and 2008. The specific amount of AV involved in foregone deductions is indeterminable. Additions to the tax base spread the property tax burden. The decrease in the eligibility period by two years could result in an earlier addition to the tax rolls of some property that would have previously qualified for an investment deduction if the investment level is unchanged.

Spinal Cord and Brain Injury Trust Fund [SECTION 60-63, 149]: This bill creates the Spinal Cord and Brain Injury Registry and the Spinal Cord and Brain Injury Research Board to advise the State Department of Health on the Registry and plans to fund spinal cord and brain injury research and grants.

The bill creates the Spinal Cord and Brain Injury Fund to be funded with additional court fees for certain motor vehicle violations and an additional motorcycle registration fee. The bill also appropriates continually money in the Fund to the State Department of Health.

This bill establishes the nonreverting, dedicated Spinal Cord and Brain Injury Fund to fund research and to establish and maintain a state medical surveillance registry for traumatic spinal cord and brain injuries. Administered by the Indiana State Department of Health (ISDH), the Fund consists of appropriations, gifts and bequests, fees deposited in the Fund (see Motor Vehicle Violation Fees and Motorcycle Registration Fees), and grants received from the federal government or private sources.

Of the money in the Fund, $500,000 is annually appropriated to each of Indiana University and to Purdue University for spinal cord and brain injury research, and the balance is continually appropriated to the ISDH to fund spinal cord and brain injury research programs.

The bill creates the 9-member Spinal Cord and Brain Injury Research Board for the purpose of administering the Fund. Members of the Board are entitled to receive a minimum salary per diem and reimbursement for travel expenses. The ISDH is required to provide staff for the Board. The Board's duties include formulating policies and procedures to consider, review, authorize, and make grants for spinal cord and brain injury research projects and programs. The Board is also to advise the ISDH on the creation of the Registry. The Board is required to annually provide to the Governor, the General Assembly, and the Legislative Council a report not later than January 30 of each year showing the status of funds appropriated to the Fund.

The bill requires the ISDH to establish and maintain a Spinal Cord and Brain Injury Registry. The Registry is to include reports of persons who have sustained spinal cord or brain injuries, other than through disease, whether or not the injury results in a permanent disability. The Registry is required to include data on the incidence and prevalence of spinal cord and brain injuries. Health care providers are required to report spinal cord and brain injuries to the ISDH. The actual cost of the Registry would depend on administrative action taken by the ISDH.

Modernization of Department of Workforce Development [SECTION 105]: The bill extends the time the Department of Workforce Development can use funds made available under Section 903 of the Social Security Act for modernization of the unemployment insurance system. Current law would not allow the usage after July 1, 2008. The bill would allow the department to use the $39.2 M allotment until July 1, 2012. The provision could reduce the state expenditures for modernization.

Judicial Technology Automation Committee (JTAC) and the Automated Record Keeping Fee [SECTION 122]: The Automated Record Keeping Fee applies to all civil, criminal, infraction, and ordinance violation actions. Under current law, reducing this fee from $7 to $4 will reduce the fee revenue by $2.89 M. Consequently, maintaining this fee at current levels will ensure that the State User Fee Fund continues to receive approximately $2.89 M annually after June 30, 2009. Twice a year, $1,288,000 is transferred from the State User Fee Fund into various state funds. The balance that remains in the State User Fee Fund is then transferred to the Judicial Technology and Automation Project Fund. Consequently, any change in fees and the revenue deposited in the State User Fee Fund will affect the Judicial Technology and Automation Project Fund. This fee is the primary funding source for the Judicial Technology Automation Committee and its efforts to improve the efficiency of the judiciary through technology.

County Reimbursement for Remanded Criminal Cases [SECTION 137]: This bill requires the state to reimburse a trial court, prosecuting attorney, and public defender for certain expenses that would ordinarily be incurred by a county in conducting a new trial if: (1) a defendant appeals the defendant's criminal conviction to the Indiana Court of Appeals or Indiana Supreme Court; and (2) the Court of Appeals or Supreme Court remands the case to the trial court for a new trial.

State expenditures would be unpredictable due to the effects of this bill. Between 2004 and 2006, one or more criminal cases were remanded to 18 counties for new trials. On average, the number of cases that are remanded for a new criminal trial average about 11 per year. And, on average, the cost of a new trial if it lasted one day would be $4,357 if a jury was involved, a court-paid defense attorney was hired, and court translator services were needed. The average number of days for a trial to be completed was not known. It is also possible that the resources required for a single trial could be significantly more than the statewide average shown in the table below.

The unpredictable factor is whether the Supreme Court or the Court of Appeals would remand a death penalty case to a trial court for a complete new trial. For five trials where information was available, the average county expenditure was $25,000.

Commission on Disproportionality in Youth Services [SECTION 152]: The provision establishes the Commission on Disproportionality. The Commission is established to develop and provide an implementation plan to evaluate and address disproportionate representation of youth of color in the use of youth services. The Commission consists of 33 members. The Indiana accredited graduate school represented by the chairperson of the Commission is responsible for staffing the Commission. The Commission meets at the call of the chairperson and meets as often as necessary to carry out the purposes of the Commission.

Members of the Commission who are not state employees are entitled to a minimum salary per diem under IC 4-20-11-2.1(b) of $35. Currently, this statute is overridden by Section 15 of the budget bill which provides a higher reimbursement of $50. Members are also entitled to reimbursement for traveling expenses and other expenses actually incurred in connection with the member's duties. Members of the Commission who are state employees but are not members of the General Assembly are entitled to reimbursement for traveling expenses and other expenses actually incurred in connection with the member's duties. Members of the Commission who are members of the General Assembly are entitled to receive the same per diem, mileage, and travel allowances paid to legislative members of interim study committees established by the Legislative Council. Per diem, mileage, and travel allowances paid to Commission members who are members of the General Assembly are to be paid from appropriations made to the Legislative Council or the Legislative Services Agency.

The Commission is required to prepare and submit a report to the Legislative Council not later than August 15, 2008. The report consists of the Commission's findings and recommendations and presents an implementation plan to address disproportionate representation of youth of color in use of youth services.

The provision appropriates from the state General Fund $125,000 for the period beginning July 1, 2007, and ending December 31, 2008, to carry out the purposes of the Commission. The Commission expires January 1, 2009.

Dramatic Production of Young Abe Lincoln [SECTION 153]: The bill appropriates to the DNR Division of State Parks and Reservoirs $825,000 from the state General Fund to pay the operating expenses of the dramatic production Young Abe Lincoln for the period beginning July 1, 2007, and ending June 30, 2009.

Lincoln State Park [SECTION 154]: The bill appropriates to the DNR Division of State Parks and Reservoirs $810,000 from the state General Fund to pay capital expenses incurred for the maintenance of the Lincoln State Park amphitheater for the period beginning July 1, 2007, and ending June 30, 2009.

Department of Agriculture [SECTION 154]: The bill appropriates to the Department of Agriculture the following amounts from the state General Fund for the following purposes beginning July 1, 2007, and ending June 30, 2009.

Acquisition of land and improvements for education outreach and development center	$2,000,000
Total operating costs for educational outreach associated through the center	$300,000
Total operating costs for development in conservation, bioenergy, and natural resources thru center	$300,000

Indiana Abraham Lincoln Bicentennial Commission [SECTION 155]: The bill appropriates to the Commission $1,475,000 from the state General Fund to pay for the operating expenses of the Commission beginning July 1, 2007, and ending June 30, 2009.

Appropriation to Indiana Arts Commission [SECTION 159]: The provision appropriates $1.25 M from the state General Fund to the Indiana Arts Commission. The money is to be used to provide grants to the: (1) organizations that have most recently qualified for general operating support as major arts organizations; and (2) significant regional organizations that have most recently qualified for general operating support as mid-major arts organizations; as determined by the Commission and its regional re-granting partners.

Money appropriated to the Fund under the provision does not revert to the state General Fund at the close of any state fiscal year, but remains available to the Commission until the purpose for which it was appropriated is fulfilled.

Economic Analysis of Indiana's Tax System [SECTION 164]: The bill requires the Legislative Council to commission an economic analysis of Indiana's tax system and authorizes the Legislative Council to contract for this analysis. The potential cost of the analysis specified in the bill is unknown at this time.

The bill requires the contractor conducting the economic analysis of Indiana's tax system to study the following topics:

(1) The stability of the Indiana tax system.
(2) Equity among taxpayers.

(3) Tax elasticity.
(4) Taxpayer compliance.
(5) The transparency of the Indiana tax system.
(6) The extent to which, if any, the Indiana tax system results in market distortion.
(7) Any other topic relevant to an economic analysis of the Indiana tax system.

The bill requires the contract to require the contractor conducting the analysis to report the findings of the analysis to the Legislative Council in electronic format before June 1, 2008. The report must include the contractor's recommendations for improving the Indiana tax system.

Elimination of Funds Transfer into the Rainy Day Fund [SECTION 148]: The bill eliminates the authority of the State Budget Agency to transfer $100 M from the state General Fund into the Counter-Cyclical Revenue and Economic Stabilization Fund during FY 2007.

Department of Revenue: This bill will increase the administrative costs of the Department of State Revenue (DOR). The DOR will have to amend the Sales Tax forms, as well as update computer software. It is estimated that the provisions of this bill can be implemented within the existing level of resources available to the DOR.

Explanation of State Revenues: *Elimination of Sales Tax on College Textbooks [SECTIONS 53-54]:* This bill will reduce Sales Tax revenue by approximately $6.3 M in FY 2008 and $7.6 M in FY 2009. The bill provides an exemption for textbooks required for *any* courses at an accredited college or university, as long as the textbooks are purchased by a student or a student's guardian, and the student is enrolled in an accredited college or university.

Sales Tax revenue is deposited in the Property Tax Replacement Fund (50%), the state General Fund (49.192%), the Public Mass Transportation Fund (0.635%), the Commuter Rail Service Fund (0.14%), and the Industrial Rail Service Fund (0.033%). The table below illustrates the reduction in Sales Tax revenue that would be distributed to each of these funds.

Revenue Reduction by Fund	FY 2008	FY 2009
General Fund	$3,103,000	$3,735,000
Property Tax Replacement Fund	$3,154,000	$3,796,000
Public Mass Transportation Fund	$40,000	$48,000
Industrial Rail Service Fund	$2,000	$3,000
Commuter Rail Service Fund	$9,000	$11,000
TOTAL	**$6,308,000**	**$7,593,000**

Sales Tax Distribution Change [SECTION 56]: This bill changes the amount of Sales Tax distributed to the state General Fund and the Public Mass Transportation Fund. The table below shows the current distribution percentages, the distribution percentage under this bill, and the FY 2008 and FY 2009 revenue shift as estimated using the December 14, 2006, State Revenue Forecast.

Sales Tax Distribution Change	Current	New	FY 2008 Shift	FY 2009 Shift
General Fund	49.192%	49.067%	($7.1 M)	($7.4 M)
Public Mass Transportation Fund	0.635%	0.760%	$7.1 M	$7.4 M

Assignment of Sales Tax Bad Debt Deduction [SECTION 165]: This provision of the bill will cause an indeterminable decrease in Sales Tax collections. The amount of this impact will ultimately depend on the number of retail merchants who assign the right to the merchant's Sales Tax deduction for uncollectible debt. This bill would allow assignment of this deduction, so long as the transaction occurred after June 30, 2004 and the merchant who paid the Sales Tax assigns the deduction in writing. Therefore it is estimated that there will be more assignments of this deduction since under current law this deduction may only be assigned to an individual or entity that is a member of the same affiliated group as the assignor.

Update of References to the Internal Revenue Code [SECTION 57]: The bill updates the reference to the Internal Revenue Code (IRC) to incorporate all the federal changes made up to January 1, 2007. The current reference to the IRC pertains to all IRC provisions amended and in effect on January 1, 2006. The update would include changes affecting tax years 2006 and after as a result of the following federal acts:

(1) The Tax Increase Prevention and Reconciliation Act of 2005 (P. L. 109-222) signed into law May 17, 2006;
(2) The Pension Protection Act of 2006 (P. L. 109-280) signed into law August 17, 2006;
(3) The Tax Relief and Health Care Act of 2006 (P. L. 109-432) signed into law December 20, 2006.

The estimated revenue impact of various provisions of these federal acts is outlined in the table below. A general explanation of pertinent provisions of these federal acts follows the table.

Provisions (Revenue Impact in $M)	FY 2007	FY 2008	FY 2009
Tax Increase Prevention and Reconciliation Act	**(2.2)**	**(5.8)**	**(5.9)**
Pension Protection Act	**(0.5)**	**(1.1)**	**(1.2)**
Tax Relief and Health Care Act			
Deduction for higher education tuition and expenses.	(5.6)	(7.6)	0.0
Expensing environmental remediation costs.	(2.2)	(1.2)	(0.5)
Depreciation of leasehold and restaurant improvements.	(1.5)	(2.6)	(2.3)
Deduction for teacher classroom expenses.	(0.8)	(0.8)	(0.2)
Other Provisions.	(0.1)	(0.7)	(0.9)
Subtotal	**(10.2)**	**(12.9)**	**(3.9)**
Total Impact on State Revenue	**(12.9)**	**(19.8)**	**(11.0)**

The *Tax Increase Prevention and Reconciliation Act of 2005* includes the following provisions:

(1) A temporary extension of the exclusion (for tax years 2007 and 2008) for certain income derived by controlled foreign corporations conducting banking, financing, or insurance business.
(2) A temporary exclusion (for tax years 2006, 2007, and 2008) for certain income derived by a CFC from dividends, interest, rents, and royalties paid to the CFC from a related CFC.
(3) An exclusion for certain settlement funds established by consent decree from 2006 to 2010 to resolve environmental clean-up claims under the federal Superfund program.
(4) A temporary provision (for tax years 2006-2010) for certain affiliated corporations to qualify for the existing exclusion for gains from stock distributions between a corporation and an affiliated corporation, provided the entities are actively engaged in business after the distribution. This provision also eliminates the exclusion for certain other distributions between affiliated corporations.

The *Pension Protection Act of 2006* includes the following provisions:

(1) A permanent provision indexing income limits for deductible IRA contributions by participants in employer-provided retirement plans.
(2) A temporary increase in deduction limits (for tax years 2006 and 2007) for property donations for conservation purposes.
(3) A permanent extension of rules allowing Sec. 529 qualified higher education savings and tuition programs.

The bill also provides for the permanent extension of various provisions relating to pension plans and individual retirement accounts that were first enacted in the Economic Growth and Tax Relief Reconciliation Act (EGTRRA) of 2001. The provisions of EGTRRA are in effect through the end of 2010. The permanent provisions of the Pension Protection Act take effect beginning in 2011. Thus, their impact would not begin until FY 2011. The precise revenue loss that may arise beginning in FY 2011 is indeterminable.

The *Tax Relief and Health Care Act of 2006* includes the following provisions:

(1) A temporary extension of the deduction (for tax years 2006 and 2007) for higher education tuition and expenses.
(2) A temporary extension (for tax year 2007) of the election to include combat pay in earned income for purposes of the earned income credit.
(3) A temporary extension of the deduction (for tax years 2006 and 2007) for teacher classroom expenses.
(4) A temporary extension of the deduction (for tax years 2006 and 2007) for certain environmental remediation expenses.
(5) A temporary extension (for tax years 2006 and 2007) of the accelerated cost recovery period for certain leasehold and restaurant building improvements.
(6) A temporary extension (for tax years 2006 and 2007) of the ability of taxpayers to establish medical savings accounts.
(7) A temporary extension (for tax years 2006, 2007, and 2008) for construction of energy-efficient commercial buildings.
(8) A permanent extension of current law provisions relating to health savings accounts (HSAs).
(9) Permanent provisions eliminating annual contribution limits under HSAs corresponding to the taxpayer's annual health insurance deductible, establishing maximum contribution limits independent of the deductible, and providing for annual indexing of these limits.
(10) The Act also made some temporary provisions of the Tax Increase Prevention and Reconciliation Act permanent.

Spinal Cord and Brain Injury Trust Fund [SECTION 59, 106, 107-136]: The bill would provide for an estimated $20.7 M increase in certain fees to be deposited in the Spinal Cord and Brain Injury Fund to be used for specified purposes.

Motorcycle Registration Fees: The bill increases the fee for the registration of a motorcycle by $10; from $17 to $27. The $10 increased fee is to be allocated to the Spinal Cord and Brain Injury Fund. The Bureau of Motor Vehicles reports that during CY 2005 there were 160,120 motorcycles registered in Indiana. Assuming these numbers remain constant, the Fund would receive $1.6 M from motorcycle registration fees.

Motor Vehicle Violation Fees: The bill requires a clerk to collect a fee of $18 for each violation of certain motor vehicle operating violations. The fees are to be distributed monthly to the Auditor of State for deposit in the Spinal Cord and Brain Injury Fund. The Bureau of Motor Vehicles (BMV) reports that during CY 2006 there were 1,063,643 persons who were found guilty of one of the specified motor vehicle operating violations. Assuming these numbers remain consistent, the Fund would receive approximately $19.1 M in fees from motor vehicle operating violations fees.

Explanation of Local Expenditures: *K-12 Education* - The bill has the following provisions regarding K-12 education.

Charter Schools [SECTION 79]: Beginning January 1, 2008, the bill removes the current funding penalty when a school converts an existing public school to a charter school. The bill might make it easier for a school corporation to create a charter school from an existing public school in the corporation. The impact would depend on the number of conversion charters that might be created. To date, there have been only two conversion charter schools created.

Capital Projects Fund Expenditures [SECTION 82]: The bill continues the use of the Capital Projects Fund, "CPF", to pay for utility service and property or casualty insurance. Currently, the maximum payment from CPF is 3.5% of the school corporation's 2005 school formula revenue. The bill changes the maximum to 3.5% of the 2007 school formula revenue. Schools were allowed to levy about $198.1 M in CY 2007 from a CPF for allowable utility and insurance expenditures. Schools would be able to use about an additional $9.4 M in CPF funding for CY 2008 and 2009.

School Bus Lease [SECTION 104]: If a school corporation enters into a lease with the Indiana Bond Bank for school buses that results in a reduction in the School Bus Replacement Levy, the school would be able to retain the amount of the reduction and keep it in the School Bus Replacement Fund or transfer the amount to the school CPF or Transportation Fund. The bill could increase school levies, but the increase is probably minor.

Orange County Provisions [SECTIONS 45-48, 138-146, 150-151]: The bill abolishes the Historic Hotel Preservation Commission in Orange County effective July 1, 2007, and establishes the Orange County Development Commission. The bill transfers any balance remaining in the Community Trust Fund (currently administered by the Preservation Commission) and all records and property of the Preservation Commission to the Orange County Development Commission. The bill provides that an unfulfilled financial commitment made by the Preservation Commission is void on July 1, 2007, except that the Orange County Development Commission must assume the Preservation Commission's commitments to the French Lick Municipal Airport and obligations to reimburse French Lick and West Baden for certain revenue under a local development agreement.

The bill establishes the Orange County Development Commission and the Orange County Development Advisory Board. The Commission consists of one member each appointed by the legislative bodies in Orange County, French Lick, West Baden, Paoli, and Orleans. The Commission also includes a nonvoting member appointed by the Governor. The members of the Commission are not entitled to salary per diem, but are entitled to reimbursement for travel expenses in connection with their duties as Commission members. The bill requires the Commission to promote economic development, attract new business, improve housing, and promote the development of Orange County. In addition, the bill also requires the Commission to:

(1) employ an administrator and necessary professional staff;
(2) facilitate and coordinate the development of Orange County;
(3) serve as a liaison between the French Lick Casino and the political subdivisions in Orange County;
(4) facilitate and coordinate the appropriate development of the historical environment of French Lick and West Baden.

The bill also authorizes the Commission to award grants and low interest loans to promote the development of Orange County.

The bill also establishes the Orange County Development Advisory Board to advise the Orange County Development Commission. The Advisory Board consists of one member each appointed by the Speaker of the House of Representatives, the President Pro Tempore of the Senate, the Orange County Convention and Visitors Bureau, and Historic Landmarks Foundation of Indiana. The Advisory Board also consists of two members appointed by the chief operating officer of the French Lick Casino. The members of the Commission are not entitled to salary per diem, but are entitled to reimbursement for travel expenses in connection with their duties as Commission members.

Bonding Authority for Certain Pension Obligations [SECTION 49]: This provision would permit counties and municipalities to issue debt to provide funds to pay pension benefits under the 1925 Police Pension Fund, the 1937 Firefighters' Pension Fund, and the 1953 Police Pension Fund. These obligations would mature within 40 years of issue. Debt issues under this provision would be limited to 2% of the true tax value of property in the taxing unit. The current limit for total outstanding debt is limited to 1/3 of 2% of true tax value for each taxing unit. This provision would expand the authority of counties and municipalities to issue debt to make these specific pension payments.

<u>*Higher Education*</u> - The bill has the following provision regarding higher education.

School Fast Track [SECTIONS 76-77, 81]: The bill provides that a school corporation will pay a student's costs and not just tuition cost for high school level courses taken at a state educational institution each year the individual is included in the corporation's ADM. The bill could increase expenditures of local schools. The amount of the increase is unknown. The bill also eliminates the requirement that higher education institutions waive tuition for students who are eligible for free or reduced lunch. Therefore, local school corporations will have to cover expenses for these students, as well.

<u>**Explanation of Local Revenues:**</u> *Child Services Levy [SECTION 10]:* As explained in *Explanation of State Expenditures*, the county Family and Children's Fund Levy would be frozen under this provision beginning in CY 2008, and the state would make a one-time distribution to counties in CY 2008 to pay child services debt and to reduce the 2008 Family and Children's Fund levy. The total net levy reduction under this provision is estimated at $264 M in CY 2008, $127 M in CY 2009, and $143 M in CY 2010.

Impact on 2% Circuit Breaker: The cost of the current 2% circuit breaker to local taxing units would be defined by the PTRC and state homestead credit appropriations in this bill and reduced as a result of the Family and Children's Fund levy provisions of this bill.

NOTE: *The following analysis of the cost of the current 2% property tax credit as affected by this bill are subject to change as local assessors finalize trending/equalization adjustments and as actual normal assessed value (AV) and levy growth rates become known. The actual credits <u>will</u> differ from these estimates.*

Under current law counties must provide credits against the property tax liability of certain classes of property if the net property tax on the property, after all other credits are applied, exceeds 2% of the property's gross assessed value. The circuit breaker credits reduce local property tax revenue.

The estimates of CY 2008 and CY 2009 PTRC and state homestead credits are based on appropriations in this bill, and the CY 2010 estimates are based on full funding. Under this proposal, the total cost of the credit would be estimated at $124 M in CY 2008, $172 M in CY 2009, and $368 M in CY 2010. The credit would affect an estimated 1,105 taxing units in 73 counties in 2010. There are a total of about 2,400 taxing units in the 92 counties.

Update of References to the Internal Revenue Code [SECTION 57]: The IRC update could potentially affect taxable income of individual taxpayers. The impact on counties imposing local option income taxes (CAGIT, COIT, and/or CEDIT) is indeterminable and would vary across counties.

Orange County Provisions [SECTIONS 45-48, 138-146, 150-151]: The bill changes the distribution of Wagering Tax revenue and Admission Tax revenue collected from the French Lick Casino beginning July 1, 2007. The table below compares the distributions for revenue from both taxes under current statute and as proposed in the bill. Following the table is a description of other changes relating to these distributions.

Recipient	Wagering Tax Distribution		Admission Tax Distribution	
	Current Statute	Proposed	Current Statute	Proposed
Orange County	6%	5%	15%	12%
DuBois County	2%	2%	5%	5%
Crawford County	2%	2%	5%	5%
Orleans	0%	5%	0%	5%
Paoli	0%	5%	0%	5%
French Lick	5%	8%	8%	10%
West Baden Springs	5%	8%	8%	10%
Historic Hotel Preservation Commission	5%	Repealed by the bill.	9%	Repealed by the bill.
Orange County Development Commission	Created by the bill.	8%	Created by the bill.	10%
West Baden Historic Hotel Preservation and Maintenance Fund	37.5%	19%	25%	13%
Orange County Convention and Visitor's Bureau	0%	0.5%	0%	0%
Indiana Economic Development Corp.	0%	0%	25%	25%
Property Tax Replacement Fund	37.5%	37.5%	0%	0%

(1) The bill provides for specific distributions from the Wagering Tax and the Admission Tax for Orleans and Paoli. Current statute requires Orange County to provide for distribution of all or any part of the revenue from each tax to Orleans and Paoli. The bill also requires (1) at least 20% of the Admission Tax revenue distributed to each town and (2) at least 40% of the Wagering Tax revenue distributed to each town to be distributed to the school corporations containing each town.

(2) The bill provides for a specific distribution of Wagering Tax revenue to the Orange County Convention and Visitor's Bureau. Current statute does not provide for a distribution.

(3) The bill repeals the Historic Hotel Preservation Commission and, instead, establishes the Orange County Development Commission. The bill provides for both Wagering Tax and Admission Tax distributions to the Commission. The bill also requires the Commission to distribute 33% of its Admission Tax distribution in equal amounts to the French Lick Tourism Commission, the West Baden Springs Tourism Commission, and the Orange County Convention and Visitor's Bureau.

(4) The bill requires French Lick and West Baden Springs to distribute at least 20% of their Admission Tax

distributions and 25% of their Wagering Tax distributions to the school corporations in which they are located. It also requires French Lick and West Baden Springs to distribute 12.5% of their Wagering Tax distributions to their respective town tourism commissions.

State Agencies Affected: All; State Educational Institutions, Indiana Arts Commission; Department of Local Government Finance; Department of State Revenue; State Budget Agency; Legislative Services Agency, Legislative Council, Hoosier Lottery; Division of State Court Administration; Court of Appeals, Indiana Supreme Court.

Local Agencies Affected: All; Township Assessors; County Auditors; Local entities that apply for grants from the Indiana Arts Commission; All civil taxing units and school corporations; Trial courts.

Information Sources: National Retail Federation's *2006 Back-to-School Consumer Intentions and Actions Survey*; BIGresearch, July 2006. Enrollment statistics from the National Center for Education Statistics, http://nces.ed.gov/programs/digest/d04_tf.asp; LSA parcel-level property tax database; Local Government Database; Mary Edmonds, Budget Supervisor, Department of Child Services, 317-232-4758; U.S. Congress, Joint Committee on Taxation, http://www.house.gov/jct/tableofcnts.html; *Indiana Judicial Reports,* 2001 through 2005; Indiana Court of Appeals; 2006 Indiana Supreme Court Opinion.

Fiscal Analyst: Alan Gossard, 317-233-3546; Kathy Norris, 317-234-1360; Chuck Mayfield, 317-232-4825; Bob Sigalow, 317-232-9859; Jim Landers, 317-232-9869; Diane Powers, 317-232-9853; Jim Sperlik, 317-232-9866; Adam Brown, (317) 232-9854; Sarah Brooks, (317) 232-9559; Bernadette Bartlett, (317) 232-9586; Mark Goodpaster, (317) 232-9852; Karen Firestone, (317) 234-2106; Chris Baker, (317) 232-9851; David Lusan, (317) 232-9592.